6-21-2016

The Climax of Long-Run Economic Growth

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1. INTRODUCTION

Economic Growth is the most popular topic today in economics. Particularly, the most wanted question is; why long run economic growth rare is declining? But at the same time, it is the most confusing subject in economics today and that could be one of the reason why it is most wanted subject[1] for the following two reasons: (1) the lack of clear identification of meaning of the declining growth rate; (2) the lack of new economic theory to assess a new problem when we say, "declining economic growth rate." In reference to (2), we are facing a new issue and problem when we say, "the declining long-run economic growth rate," yet have not created a new economic theory to be able to deal with such a new issue and problem. (We have been assessing a new issue and problem with old economic theories.)

I will define clearly the meaning of the declining economic growth rate as a new issue today. Then I will also introduce a new approach to building an economic theory in order for us effectively to assess the new issue of long run economic growth.

The centerpiece of all popular topics in economic growth today is about the fact that long-run economic growth rate is declining for an advanced nation. This is not the issue of the fact a nation's growth rate

[1] It could be that today economic growth is a such popular topic because we are confused about its definition. Once we are able to see the meaning of the declining economic growth rate, it might not be as popular.

declines when a nation advances from a developing nation. The growth rate declines, for example, from 10% to 3%. We know this fact well, and the reason why we have this is well debated and firmly established.[2] The issue we are concerned today is after a nation becomes an advanced nation and is firmly establishing as a rich nation with 3% (to 4%) growth rate for a while. Then, in the long-run, its growth rate declines to around 2% or less like United States. This is a new issue today and makes today's economic growth topic as the most exciting topics, because we do not know why.

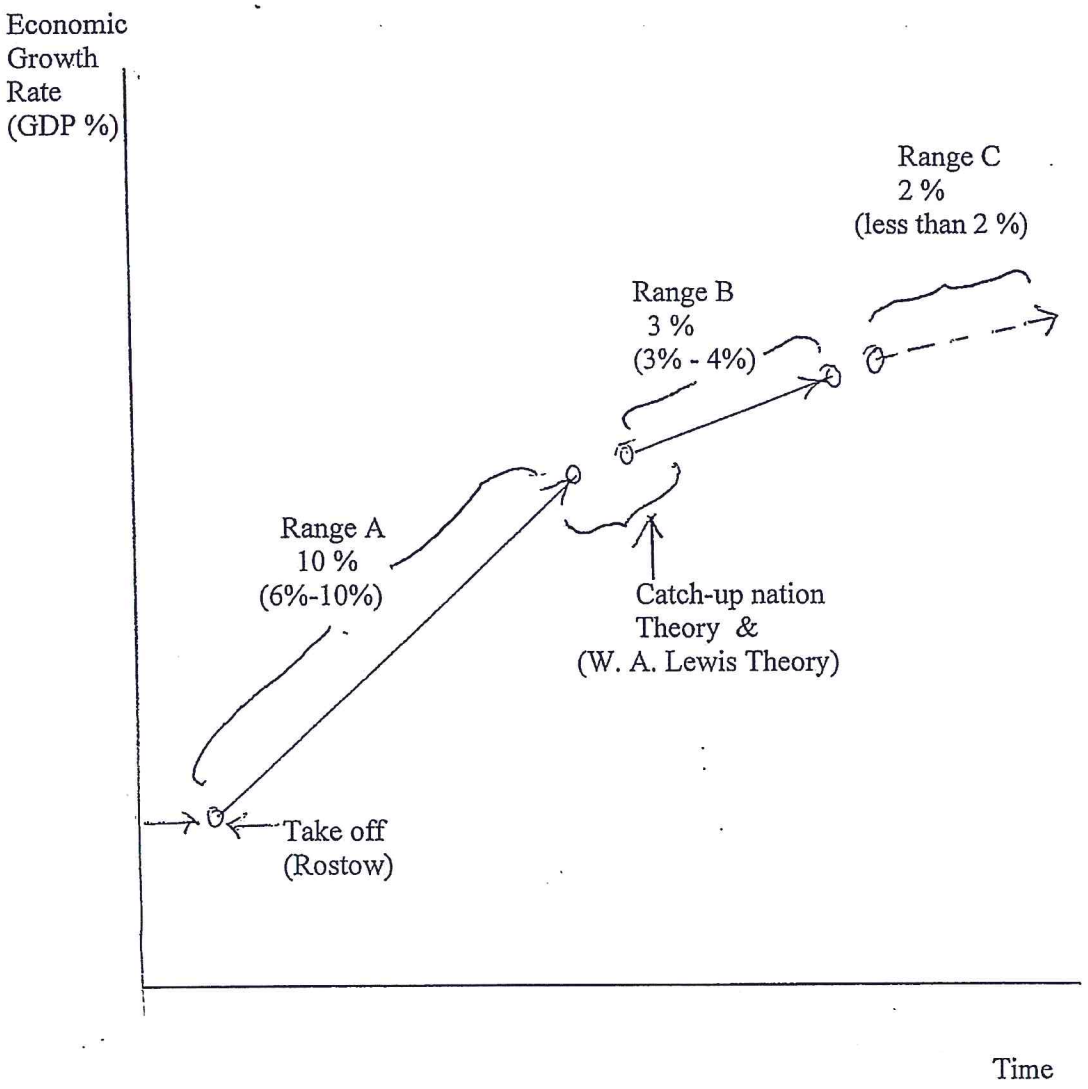
When an advanced nations' growth rate declines to 2% or less, it not only impacts the life of an advanced nation, but it also influences the growth rate of rapidly developing nations who are used to growth of 7% to 10%. (China, for example, was the most popular topic once in economic growth in the past few decades.).

2. THE IDENTIFICATION OF FALLING OF GROWTH RATE

The Figure 1 shows the historical path of economic growth for all nations. Once a poor nation takes off and begins a transformation stage, during which a nation could grow 10 % per year (or 6% to 10%) just as Japan did as the first nation, followed by the Four Tiger nations[3], and the most recently China. We call this range of economic growth as range A. Then these nations will eventually (if they are successful) enter from range A to range B, an advanced nation stage, in which their economic growth rate will become 3 % (or 3% to 4%). Why has this happened? We have extensively discussed this reason already and verified historically: (1) Catch

[2] We will cover this subject in the next section in this paper.

[3] The four tigers nations include South Korea, Taiwan, Hong-Hong, and Singapore. In fact, the primary reason why I publish this paper is to show that they would be ready to deal with the issue they will face soon as soon as they have entered the advanced stage.



History of Economic Growth Path

FIGURE 1

up nation theory or convergence hypothesis[4] and (2) W.A. Lewis theory.[5] Many scholars such as ones at Federal Reserve Bank of New York still think Japan's and Europe's problems of having declining economic growth rate today should be explained in terms of catch-up nation theory[6]. This is a false approach or an illusion and is one of the reasons why this article is written.

Then, after a nation firmly establishes its ground as an advanced nation growing at 3% to 4 % for a while, suddenly a strange thing has happened recently as the advanced nation's growth rate dropped less than 3 % to 2% or less: We will call this situation range C. Nobody knows exactly why this happened or why we have range C, an extremely uneasy or uncertain situation. Catch-up nation's theory should be applied to only the range between A and B or the movement from range A to range B. Today's issue of declining growth rate of an advanced nation is range C. Japan's problem of having low growth rate or declining growth rate has to do with range C. I have given the clear advises to those nations' issue of economic growth. (Yet the most of scholars have focused on this issue as it is the issue of the range between A & B, not realizing that the issue is found in range C.)

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[4] A nation can learn and imitate know-how and art of technology from an advanced nation and grow fast. But once it becomes an advanced nation, it has to invent by itself. Inventing by itself requires a long time, thus, its grow rate will decline. See for the catch up nation theory or "The Convergence Hypothesis." Baulmol William and Alan S. Blinder, *Macroeconomics*, 11th ed. (2010 Update), pp. 137 (South-Western).

[5] A developing nation will run out of the (disguised unemployment) labor as it continues to transfer the labor from the rural area to the industrial sector, therby ending Lewis' theory. W.A. Lewis: Pioneer of Development Economics, UN Chronicle, VOL. SLV No. 1, 2008.

[6] Is the United States Losing Its Productivity Advantage?-Federal Reserve Bank of New York: September 2007 Volume 13, Number 8.

The centerpiece of economic growth debate today is "declining long-run economic growth rate," which is referring to range C (not referring to the entry to range B from range A). In range C, a nation is growing not in recession, but extremely uneasy and uncertain circumstances because the growth rate is declining to less than 3% such as 2 % or less than historical growth average. It is an exciting topic because it is unknown and extremely uneasy but still growing decently, and suggest a rich nation.

Many scholars began to pay attention to this issue by focusing on obstacles to economic growth. This approach to paying attention to obstacles to economic growth reached a climax in the debate when *New Time's* editor published an article, "Obstacles to Economic Growth" in 2015.[7] However, they have paid attention to not having enough things such as technological advancement, investments, or capital accumulation situations which promote labor productivity. This is the traditional old approach to the issue, and such issue is often found in range B, not in range C. Our issue in range C is not because we lack investment or capital accumulation or technology. The declining economic growth rate in range C occurs for a totally different reason: as a nation becomes richer and richer, one must look at something growing in the economy just like a cancer. Something new that is growing (like a cancer) hinders or pulls down a nation's economic growth rate as a nation becomes mature in its economic growth stage or becomes rich: this is my concept of an obstacle to economic growth. The obstacle to economic growth found in range C is not because we do not have something or lack something (like technology or capital), but

[7] Ironically, such debate about the obstacles to economic growth would have been unnecessary if they had read my paper published one year ago. That paper had given the answer to that debate and also had given a new theory which had given a clear answer to such debate.

because we have new material growing in an economic system when a nation become rich.

I have already presented this new approach already to address the obstacle to economic growth in my previous work as follows: "We should pay attention r2 instead of r1: r2 indicate the factor which prevent or reduce labor productivity that grows in the economy as a nation become wealthier while r1 indicates the factor which promotes labor productivity such as capital accumulation and technological advancement." When other scholars speak of an obstacle to economic growth, they are addressing r1, which is the issue found between ranges A and B. I have proposed that we should address r2, not r1 when we speak of an obstacle to economic growth for an advanced nation, because the issue is found in the range C.

3. NEW AND OLD WAY OF CREATING ECONOMIC THORIES

Direct observation of the behavior of a business unit or an economic system leads to the creation of an economic theory. I have taken a new approach to creating a new economic theory. In contrast to this, an old traditional way is to derive a mathematical conclusion first and then try to fit that conclusion into the real world. We might study a business unit or an economic system or try to interpret that mathematical conclusion in terms of the business behavior or how an economic system functions. This means that one does not have to have any real-life experience in business nor experience to observe how an economic system functions. As long as you have a beautiful mathematical model, its conclusion can be interpreted, often

forcefully[8], using business language or language of an economic system. For example, foreign students might come to a U.S. institution and publish their mathematical conclusion, although they have no idea how the business operates in the U.S. As long as their mathematical conclusion is fitting into the business language, it will be well received. With these kinds economic theories which have been developed as mentioned above, it is hard to assess and understand the new kinds of issues and problems which are derived from real economic activities. Mathematics cannot predict human behavior. Falling economic growth rate due to human behavior can be assessed if we have a new approach (as I have written) which addresses the nature of human beings[9].

My new approach to building economic theories requires in depth knowledge of how businesses operate or how an economic system operates in order to come up with the hypothesis[10] to build an economic theory. The major portion of my work of building an economic theory is to prove that hypothesis by carefully observing the behavior of a person in a business. In

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[8] See for example, the managing editor's remark (*AER)*: "A mathematical conclusion (the Slutsky equation) is used mainly as an expositional devise in teaching, to make sure empirical analyses (real world life) are not grossly inconsistent with economic theory (mathematical exposition)." A letter to the author from managing editor of *American Economic Review* (Orley Ashenfelter): July 2, 1986.

[9] Paul Kim: (See Google) "A New Economic Growth Theory: An Obstacle to Economic Growth," "Right Perspective for U.S. Growth Rate," "A New Economic Growth Theory #2." The latter is the revision of the publication of Paul Kim, "Labor Mobility Causes U.S. GDP to Fluctuate."

[10] A traditional economic theory is built also, based on an assumption, but its assumption uses commonsense and has no need to prove the assumption to make sense: For example, the demand theory or function assumes that when price decreases, the quantity of goods demanded increases. For another example, the consumption theory or function assumes that if the disposable income increases, consumers spend more to buy goods. All theses assumptions have no need to prove that their hypothesis is true because they make common sense.

order to be inspired to come up with a hypothesis, one has to know well how a person in a business behaves or how an economic system operates.

The new approach to building economic theory which I am presenting is opposite to the traditional economic theory. I will search the behavior of economic units first on intuitive ground. (Thus, it requires knowledge in advance of how an economic system works.) Then, based on that intuition, I establish a hypothesis. Work of building an economic theory in my new approach is to prove or present evidence to demonstrate that that hypothesis is true or truly makes sense. Or it is well reflected in the behavior of a person in a business or how well it is revealed in the behavior of a person in a business. (Mathematical conclusions are used to verify that the hypothesis is true quantitatively.) This proof depends on the way in which an economic system operates. Because each country has a different way of operating, it requires knowledge of its economic system. Japan has one way of operating its economic system, and the United States has another.

I have already published a new economic theory geared to Japan entitled "An Economic Growth Theory: An Obstacle to Economic Growth." (2014). It was the first paper which clearly demonstrated that the declining long-run economic growth rate in Japan is affected (adversely) by activities of redistribution of power and income. However, I focused on what I called the "motivational elements" of the nation which determines how intensively labor is used or if laborers (technology and capital) are utilized to the fullest potential, behavior which affected the productivity of the nation.

I followed that publication with "Right Perspective for the U.S. Economic Growth Rate" in *2015,* which rigorously built the new economic theory which shows how activities of redistribution of power and income will impact labor productivity of a nation, lowering long-run economic

growth rate in the U.S. However, in this theory, I have emphasized labor mobility as a key determinant of labor productivity and economic growth rate in the U.S. which is affected by activities of redistribution of power and income. Then I published my second paper, "An New Economic Growth Theory #2: How to Overcome an Obstacle to Economic Growth," that provided more cases studies that perfect that the new theory.

4. CONCLUDING REMARK

Why are we confused and excited about falling economic growth rate in the long-run? Because many people do not know that the topic of falling long-run economic growth rate is referring to range C. Although range C is a new phenomenon, we are trying to identify and solve the new life or the issue and problem of the new life with the old ways of looking at economic issue and problems. We should not put new wine into an old wine skin, or it will burst. Declining economic growth rate in range C is a new life, issue, or problem which we have never experienced before. In order to deal with such new issue or life, we must welcome a new economic theory to deal with new issue.

I have already developed a new economic growth theory that focuses on range C and that has been published.[11] What is growing in an economy when a nation become wealthier is activities of redistribution of power and income, which impact the productivity of a nation. In Japan, such activities influenced *"motivational elements"* of a nation which are promoted by what

[11] The following articles can be found in Google: "A New Economic Growth Theory: An Obstacle to Economic Growth." "Right Perspective for U.S. Economic Growth Rate." "A New Economic Growth Theory #2: How to Overcome An Obstacle to Economic Growth. "A New Labor Productivity Growth Rate Equation."

I called "*human technology*",[12] while in the U.S. it influenced "labor mobility." The strength of Japan's economic growth was the motivational elements while the strength of the U.S. economic growth has always been labor mobility. These strengths of these nations were weakened as the nations' activities of redistribution of power and income intensified as they become rich, and entered stagnant stages.

Today, two major super powers are shaken because theses two major elements of economic growth, human technology and labor mobility became deteriorated as they reached the climax of economic growth. For the U.S., the experience in range C is the second time as the history record: The first time was during 1973-1995 and the current period is during 2007-2016.[13] For that reason, the U.S. is considered to the leader among advanced nations. How the U.S. dealt with first time experience of reversing from range C to range B was briefly discussed in my other paper.[14] On the other hand, Japan (along with European nations) is experiencing the first time the issue of range C or they never had experiencing of reversing range C to range B. That is why Japan is struggling in dealing with range C and has never had any luck. I will cover on my next paper how the U.S. deals with the issue of reversing to range B from range C.

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[12] How Japan excelled using the human technology during their prime of economic growth, see Paul Kim, "A New Economic Growth Theory: An Obstacle to Economic Growth, p. 5-6.
[13] Paul Kim, "Right Perspective for U.S. Growth Rate," p. 3-8.
[14] Paul Kim, "A New Economic Growth Theory #2," p. 17-18.

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